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JOHN J. FINNIGAN, JR.
Senior Counsel

VIA OVERNIGHT MAIL

December 10, 2004

CINERGY®

Ms. Elizabeth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40602-0615

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DEC 13 2004

PUBLIC SERVICE
COMMISSION

Re: In the Matter of the Application of The Union Light, Heat and Power Company
for Approval of Fixed Bill Program Riders Applicable to Residential Customers
Case No. 2004- 00503

Dear Ms. O'Donnell:

Enclosed please find an original and 12 copies of The Union Light, Heat and Power Company's Application and the Testimony of Michael Goldenberg, Thomas L. Osterhus, Todd W. Arnold and Jeffrey L. Pipher in the above captioned case.

Please return two filed-stamped copies in the enclosed overnight envelope.

If you have any questions, please feel free to contact me at (513) 287-3601.

Sincerely,



John J. Finnigan, Jr.

JJF/sew
Enclosures

cc: Hon. Elizabeth Blackford w/enclosure

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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COMMISSION

In the Matter of:)
)
Application of The Union Light, Heat)
and Power Company for Approval of Fixed) Case No. 2004- 00503
Bill Program Riders Applicable to)
Residential Customers.)

APPLICATION

1. **Utility Status.** Applicant The Union Light, Heat and Power Company (ULH&P) is a Kentucky corporation with its principal office and principal place of business at 1697 A Monmouth Street, Newport Shopping Center, Newport, Kentucky 41071. Its mailing address is P. O. Box 960, Cincinnati, Ohio 45201. ULH&P supplies gas and electric service to retail customers in Kentucky and is a “public utility” within the meaning of KRS 278.010(3)(a) and (b) and is subject to the Commission’s regulation as to rates and service pursuant to KRS Chapter 278.

2. **Articles of Incorporation.** Pursuant to 807 KAR 5:001, Section 8(3), ULH&P states that a certified copy of its Articles of Incorporation, as amended, is on file with the Commission in Case No. 6566.

3. **Applicant’s Proposed Fixed Bill Program Riders.** Pursuant to KRS 278.030 and 807 KAR 5:011 Section 6, ULH&P seeks Commission approval of tariffs allowing it to implement a Fixed Bill Program, *Your FixedBill* as a three-year pilot program. *Your FixedBill* is a competitive billing option which expands the portfolio of billing and payment options currently offered to ULH&P customers. *Your FixedBill* is purely voluntary. It provides residential customers with the peace of mind, convenience

and certainty of knowing they will pay the same amount each month for twelve (12) consecutive months regardless of the impact of weather, usage or cost fluctuations without any end of period reconciliation or true up. Similar residential customer fixed bill offerings have been approved for utilities in other states. Some customers that are likely to have an interest in this program include risk-averse customers, and customers that are not able to financially manage large swings in their monthly bills.

ULH&P proposes to conduct an initial offering of the Fixed Bill Program in spring, 2005. The initial rollout will test the post-winter heating season interest in *Your FixedBill* and allow ULH&P to test its information technology (“IT”) and billing system changes with a limited number of customers. Full program roll-out would then be anticipated in the spring of 2006. The spring 2005 initial enrollment would be limited to the first 1,000 eligible customers. In the spring of 2006, ULH&P would market to approximately 50,000 residential customers and enrollment would be open to approximately the first 14,000 eligible customers to sign up on a first-come, first-serve basis. During the term of the three-year pilot program, ULH&P will cap enrollment at 20% of eligible customers. If the Commission permits ULH&P to continue the program beyond the term of the three-year pilot program, ULH&P will hold an annual enrollment period where more customers can enroll. In the future, ULH&P may need to cap total enrollment due to size and manageability constraints. The projected long term participation rate, however, is estimated to be between 10% and 15% of ULH&P’s total customer base, similar to the market potential of the Budget Billing program, a comparable billing option available now (but requiring an annual true-up).

In order for ULH&P to mitigate the risks of the program offering for the twelve month term of *Your Fixed Bill* enrollment, certain customer eligibility criteria must be met. The customer must have resided in the same location for at least 12 months and have at least 12 actual (not estimated) meter readings. The customer must also have a usage profile that is reasonably predictive, be current on their ULH&P bill, and not have been disconnected for non-payment of service in the last 12 months. The customer must make a commitment to participate in the Fixed Bill Program for at least 12 months. Customers currently enrolled in ULH&P's Budget Billing Program may enroll in *Your FixedBill*.

As long as the customer continues to meet the eligibility criteria for *Your FixedBill*, after the first year on the program, ULH&P will calculate an updated 12-month Fixed Bill offering for the customer based on current data, including the previous year's consumption, and provide the customer with the new fixed bill amount. Customers will be notified of a change, if any, in their new fixed bill amount at that time, and re-enrolled in the Fixed Bill Program, unless they request to be switched to a different billing program.

If the customer's actual usage is more than 20% of what was expected for that month, given the month's observed weather, ULH&P reserves the right to terminate the customer's participation in the program and revert the customer to the standard residential tariff. Typically, one violation will result in sending the customer a warning letter. This letter will document the customer's excess usage and warn them that they could be removed from the program if excess usage continues to occur. If usage is considerably more than 20% greater, or if two or more months of usage in excess of 20%

are observed, then the customer may be removed from the program or choose a recalculated fixed bill amount which incorporates the increased usage. The right of removal must be retained by the company to avoid possible gaming of the program and other, less intentional, usage increases such as:

- Adding a building addition;
- Dramatically changing heating and/or air conditioning behaviors;

ULH&P service representatives will be trained specifically to deal with *Your FixedBill* customers and maximize their satisfaction. If a customer's excessive usage meets the criteria for removal from the Fixed Bill Program, the customer will be given two choices. First, the customer may return to standard residential tariff and pay the difference between standard residential tariff and their fixed bill amount for the time they were on the program; or, the customer can accept a newly calculated fixed bill amount incorporating the excessive usage. Those who are removed from the Fixed Bill Program will be subject to a \$50 administrative fee. The removal charges are intended to encourage customers to keep their commitment to stay on the Fixed Bill Program for 12 consecutive months.

Eligible customers will receive a direct mail solicitation from ULH&P. This mail piece will advise them of the availability of the Fixed Bill Program, the monthly fixed bill amount, and their highest and lowest monthly standard residential tariff amount for the past 12 months. This allows for a fully informed, side-by-side, comparison. In addition, the mail piece will disclose that the program is not intended to save the customer money, there is an embedded program fee, and removal charges may apply for those who withdraw or are removed from the program before the end of the 12-month period. The

terms and conditions of the Fixed Bill Program will be provided to customers upon solicitation.

4. **Applicant's Request for Approval of Fixed Bill Program.** Approval of the Fixed Bill Program is appropriate because the Fixed Bill Program is a completely voluntary, competitive billing option. Through its request for approval, ULH&P also requests the flexibility to determine the individual customer's fixed bill amount, which includes a program fee, within the parameters described in this application, Rider FXB-E and Rider FXB-G (the proposed tariffs for *Your FixedBill* attached to the testimony of ULH&P witness Jeffrey L. Pipher). Because ULH&P is assuming the weather, usage, price fluctuation risk, and administrative cost risks, the fixed bill calculation must include a program fee. ULH&P desires the flexibility to set the program fee on an annual and customer specific basis. The program fee is calculated as a percentage of the fixed bill amount. As a competitive program, if the fee is set too high, customers will not enroll or remain enrolled in the program and the program will not be successful. This gives ULH&P adequate incentive to keep the program fee at a reasonable level. However, ULH&P is willing to commit that the program fee for the Fixed Bill Program will not go above 10% at any time.

ULH&P also requests that the profits or losses and the incremental expenses of the program be treated "below the line" for regulatory purposes. As a result, both the costs and the revenues associated with the program would not be included in the revenue requirement for any future rate proceeding. In this way, customers who do not participate in the Fixed Bill Program will not be affected by the program's costs. Below the line treatment of profits and losses for regulatory purposes is common in fixed bill offerings.

The vagaries of weather, economic fluctuations, or even simple additions or deletions to a customer's family may cause energy use to be different than the reasonably predicted amount. The Fixed Bill Program is a voluntary billing product which is marketed as a customer convenience. It is intended for those who put a premium on complete monthly bill predictability and prefer that option to traditional standard billing or monthly budget billing with annual true up. It is appropriate that losses or profits resulting from *Your FixedBill* be accounted for below the line for regulatory purposes.

The Commission would allow ULH&P and its customers to realize several benefits by approving *Your FixedBill*. First, the Fixed Bill Program will benefit ULH&P because ULH&P is in direct competition with non-regulated providers of heat producing commodities that may offer a variety of billing options. To the extent that these other vendors of heat commodities offer the functional equivalent of fixed bills to their customers, that disadvantages ULH&P in competing for and retaining customers' heat load. Additionally, ULH&P believes customers have come to expect some form of fixed bill offering as they have increasingly become used to such offerings in the telecommunications and internet world and make greater use of monthly budget billing.

Second, approval of the Fixed Bill Program will benefit both the energy utility and the energy utility's customers. Research and experience from other utilities' fixed bill options demonstrate that customers place value in and generally derive increased satisfaction from the availability of a fixed bill offering. Customers appreciate having the ability to choose, from a variety of options, the billing methodology that best suits them. Many customers appreciate the peace of mind and convenience that comes from knowing they will write a check for the same amount each month for 12 months regardless of the

impact that weather may have on their usage and without the need for an end of year settle up payment. This increased customer satisfaction benefits ULH&P through improved public relations with its customers and the maintenance of a strong competitive position against alternative providers of heating fuels.

Third, all ULH&P customers would benefit to the extent that the fixed bill program would prevent ULH&P customers from migrating to other vendors of heat commodities that offer a fixed bill, because ULH&P could keep its rates lower, by spreading its fixed costs over a larger customer base.

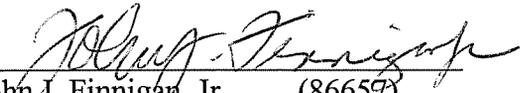
5. **Program Costs.** ULH&P proposes to account for the difference between what customers would have paid under standard tariff and what they actually paid under *Your FixedBill* (i.e., the delta revenue) below the line for regulatory purposes. Additionally, any incremental costs directly related to *Your FixedBill* will be accounted for below the line and not charged to customers. The magnitude of the program costs will vary based on variable factors such as the number of customers participating in the program, the weather during a particular year, and customer usage patterns. ULH&P would help mitigate these costs through the program fee, which would be 10% during the first year of the program and would be capped at 10% for subsequent years. This program fee is within a reasonable range of program fees charged by other utilities that offer fixed bill service offerings.

6. **Administrative Case No. 384.** The Commission stated in Administrative Case No. 384 that it would be willing to consider approving fixed bill programs provided that: (1) the program is voluntary; (2) the applicant supplies an estimate of the program costs; and (3) the program costs are borne by the customers selecting the fixed bill

service offering or by the utility.¹ *Your FixedBill* meets these requirements. First, the program is voluntary. Second, ULH&P has provided the foregoing information on the magnitude of program costs. Third, the program costs are borne by the customers selecting the fixed bill offering and by the utility, and the costs are not borne by customers who do not select the fixed bill offering.

WHEREFORE, ULH&P respectfully requests that the Commission enter an Order approving Riders FXB-G and FXB-E; approving the requested below the line accounting treatment under KRS 278.272 and 278.274; and for all other relief appropriate in the premises.

THE UNION LIGHT, HEAT AND
POWER COMPANY

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¹ *In the Matter of an Investigation of Increasing Wholesale Natural Gas Prices and the Impacts of Such Increases on the Retail Customers Served by Kentucky's Jurisdictional Natural Gas Distribution Companies*, Administrative Case No. 384 (Order dated July 17, 2001) at 7.

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**PUBLIC SERVICE
COMMISSION**

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of the Application of The Union)
Light, Heat and Power Company for Authority)
to Implement a Fixed Bill Program) Case No. 2004-00503
)
)
)

DIRECT TESTIMONY OF
ON BEHALF OF MICHAEL GOLDENBERG
THE UNION LIGHT, HEAT AND POWER COMPANY

December 10, 2004

**TESTIMONY OF MICHAEL GOLDENBERG
MANAGER, PRODUCT MANAGEMENT
CINERGY SERVICES, INC.
ON BEHALF OF
THE UNION LIGHT, HEAT AND POWER COMPANY
BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION**

I. INTRODUCTION

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Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Michael Goldenberg, and my business address is 1000 E. Main Street, Plainfield, Indiana 46168.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by Cinergy Services, Inc., an affiliate of ULH&P, as Manager, Product Management.

Q. WHAT DUTIES AND RESPONSIBILITIES DO YOU HAVE IN YOUR CURRENT POSITION?

A. As Manager, Product Management, I have responsibilities for managing the delivery of products and services for ULH&P, The Cincinnati Gas & Electric Company, and PSI Energy, Inc. ("PSI").

Q. PLEASE OUTLINE YOUR EDUCATIONAL BACKGROUND.

A. I am a graduate of Cornell University with a Masters Degree in Business Management and Finance.

Q. PLEASE SUMMARIZE YOUR PROFESSIONAL EXPERIENCE.

A. I have held various positions within the Company's Marketing and Sales areas since my employment by the Company in 1990. My position prior to Manager, Product Management was that of Manager, Commercial Sales. I have also held

1 positions in the areas of Demand Side Management Operations and National
2 Accounts.

3 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

4 A. My testimony (1) explains the proposed *Your FixedBill* Program; (2) describes
5 how the bill is calculated; (3) lists the program terms and conditions; (4) shows
6 ULH&P's marketing strategy and customer information disclosures; and (5)
7 describes why the Commission should approve the tariff changes necessary for
8 ULH&P to implement the *Your FixedBill* Program and the requested accounting
9 treatment.

10 **II. YOUR FIXEDBILL PROGRAM GENERALLY**

11 **Q. PLEASE DESCRIBE THE PROPOSED FIXED BILL OFFERING.**

12 A. *Your FixedBill* is a billing option which expands the portfolio of billing and
13 payment options currently offered to ULH&P customers. It is a voluntary billing
14 option which provides residential customers with the peace of mind of knowing
15 they will pay the same amount each month for the next twelve (12) months
16 regardless of the impact of weather, usage, or price fluctuations.

17 **Q. PLEASE BRIEFLY DESCRIBE THE RESEARCH AND ANALYSIS THAT
18 HAS BEEN UNDERTAKEN CONCERNING THE FIXED BILL
19 PROGRAM.**

20 A. Cinergy Services personnel have been looking into this option for several years.
21 We have reviewed the program offerings of other utilities such as Georgia Power,
22 Gulf Power, Duke Energy Corporation, Indianapolis Power & Light Co., and the
23 Northern Indiana Public Service Company. We have retained expert consultants

1 regarding how to model the expected energy usage, as well as how to market the
2 program. We undertook a very small pilot program using 50 Cinergy/PSI
3 employees to gauge interest and get some real life experience with the program.
4 We are making the required information technology (“IT”) and billing system
5 improvements needed to rollout the program.

6 **Q. PLEASE DESCRIBE HOW YOU INTEND TO ROLLOUT THE FIXED**
7 **BILL PROGRAM.**

8 A. For ULH&P, we are requesting that the Commission approve this program as a
9 three-year pilot program with enrollment capped at 20% of eligible customers.
10 We intend to conduct a small rollout in spring 2005 (subject to Commission
11 approval in this case). This pilot rollout would allow ULH&P to test its IT and
12 billing system changes with a limited number of customers, to ensure we are
13 ready for a larger program rollout in spring of 2006. The spring pilot enrollment
14 will be limited to the first 1,000 eligible customers. In the spring of 2006, we
15 would market to approximately 50,000 residential customers, and enrollment
16 would be open to approximately the first 14,000 eligible customers to sign-up on
17 a first come first serve basis, or the end of the enrollment period, whichever
18 occurs first. In later years, subject to the Commission’s approval for ULH&P to
19 continue the program beyond the initial three-year pilot term, we would have an
20 annual enrollment period when additional customers can enroll.

21 **Q. WHAT CRITERIA MUST A CUSTOMER SATISFY TO QUALIFY FOR**
22 ***YOUR FIXEDBILL?***

1 A. In order for ULH&P to take on the risk of weather, usage, and price fluctuations
2 for a period of one year, ULH&P must insist on certain criteria for eligibility. For
3 instance, the customer must have remained in the same residence or location for at
4 least twelve (12) months and have no estimated meter readings over the last 12
5 months. Additionally, in order for ULH&P to be able to predict expected usage,
6 the customer must have a load profile which can be modeled with reasonable
7 predictability. These requirements are critical for ULH&P to be able to predict
8 the customer expected usage under weather normalized conditions. Customers
9 must make a commitment to be enrolled in *Your FixedBill* for a term of 12
10 months and they must be current on their electric service payments at the time of
11 enrollment. Finally, customers must not have been disconnected for nonpayment
12 of electric service within the previous 12 months. This is a voluntary option and
13 calculation of the individualized fixed bill amount takes a fair amount of
14 resources, therefore, only customers in good standing on their electric bills and
15 who are willing to undertake a one-year contract should be eligible.

16 **Q. MAY CUSTOMERS WHO ARE CURRENTLY BUDGET BILLING**
17 **CUSTOMERS ENROLL IN FIXED BILL?**

18 A. Yes, as long as they meet the other eligibility criteria. In fact, Budget Billing
19 Program customers have already shown a preference for levelized monthly
20 payments. The Fixed Bill Program may appeal to budget billing customers that
21 wish to do away with the risk of the end of year settle-up involved in the Budget
22 Billing Program. Eligible budget billing customers will be informed of the Fixed
23 Bill Program as early as possible to allow them to settle-up their credit or charge

1 balance under the Budget Billing Program prior to the cut off for enrollment in
2 Fixed Bill. Budget Billing Program customers will be removed from the Budget
3 Billing Program, and returned to the standard residential tariff rate until the settle-
4 up amount is paid. Then, the customer will be enrolled in the Fixed Bill Program.

5 **Q. IS THE FIXED BILL PROGRAM INTENDED TO SAVE CUSTOMERS**
6 **MONEY?**

7 A. No. As described below, the Fixed Bill Program has a program fee of up to 10%,
8 to cover ULH&P for administrative costs and the risks of weather, usage and
9 pricing fluctuations. The Fixed Bill Program is intended for those customers that
10 knowingly choose to pay a little extra for the certainty and convenience of
11 knowing they will pay the same amount each month without a true-up payment at
12 the end of 12 months. As described later in my testimony, the Fixed Bill Program
13 marketing material to be distributed to ULH&P customers makes clear that Fixed
14 Bill is not intended to result in the lowest annual cost of gas and electricity
15 possible, but rather is another billing option offering from which customers can
16 choose.

17 **III. FIXED BILL CALCULATION**

18 **Q. HOW WILL EACH CUSTOMER'S FIXED BILL BE CALCULATED?**

19 A. Expected usage for the upcoming year must be calculated on a customer specific
20 basis, using usage history from the past 12 or more months, adjusted for weather
21 and expected usage changes. This process is described in the testimony of
22 ULH&P witness Mr. Thomas L. Osterhus. Then, the various rate riders for the
23 standard residential tariff must be projected for the upcoming 12 months. The

1 customer's bill is calculated with the base rates from the standard residential tariff
2 and the estimated rider factors. Finally, a program fee of up to 10% is applied to
3 cover ULH&P for the risks and administrative costs of the program. This is done
4 for each month of expected usage. The 12 months are added and then divided by
5 12 to determine the monthly fixed bill amount.

6 **Q. WHY DOES THE CALCULATION OF THE MONTHLY FIXED BILL**
7 **AMOUNT CONTAIN A PROGRAM FEE OF UP TO 10%?**

8 A. The monthly Fixed Bill is calculated based on normal temperatures and past
9 historic usage levels. ULH&P runs the risk that weather fluctuations may
10 increase the customer's usage during the twelve-month program period.
11 Additionally, ULH&P absorbs the risk that the customer may increase usage
12 regardless of weather. Finally, ULH&P is fixing the various rate riders, which
13 can fluctuate greatly throughout the year; thus ULH&P is absorbing the rider risk
14 as well. To cover these risks, ULH&P must charge a program fee of up to 10%.
15 The program fee is necessary to help mitigate weather, usage and cost fluctuation
16 risks, in addition to covering administrative costs.

17 ULH&P is asking the Commission to allow ULH&P the flexibility to set
18 the program fee on an annual basis, of up to 10%. For instance, ULH&P plans to
19 begin with a 10% fee in the first year; however, based on experience during the
20 first year, ULH&P wants the flexibility to lower the fee for subsequent years or
21 raise it back to 10%. Raising or lowering the fee can assist ULH&P in managing
22 the operational and financial risks of the program.

23 **Q. DO YOU BELIEVE THE PROGRAM FEE IS FAIR?**

1 A. Yes. The Fixed Bill Program is completely voluntary. Customers will be
2 informed that the program is not intended to result in the lowest gas and electric
3 bill possible but rather provides the convenience of knowing that they can pay the
4 same amount each month, every month, for twelve (12) months with no true-up
5 payment. If the program fee is set too high, then customers will not sign up, and
6 the program will not be successful. That is why ULH&P needs the flexibility to
7 determine the program fee on an annual and customer specific basis. However,
8 ULH&P does agree that 10% is the highest program fee that will be charged.
9 ULH&P's proposed program fee is consistent with fees charged for other fixed
10 bill offerings.

11 **Q. SHOULD THERE BE CONCERN THAT THE FIXED BILL QUOTES**
12 **PROVIDED TO CUSTOMERS REFLECT A PROGRAM FEE AND ARE**
13 **BASED ON ESTIMATES AS OPPOSED TO ACTUAL USAGE AND**
14 **RIDERS?**

15 A. No, not at all. At the time a customer is advised of the Fixed Bill Program, the
16 customer will receive all the information needed to understand that the Fixed Bill
17 Program has a program fee and is based on expected usage and rider amounts.
18 The customer will be given their Fixed Bill quote at the same time they are
19 provided their historical highest and lowest monthly bill in the past 12 months
20 under standard residential tariff. Of course, customers will also have their current
21 bill for comparison purposes. It is then up to the customer to decide if they want
22 to pay the fixed bill amount for the ease, convenience, and certainty of the same
23 bill each month for a year.

1 **IV. FIXED BILL TERMS AND CONDITIONS**

2 **Q. WILL THE CUSTOMER ENTER INTO A SERVICE AGREEMENT**
3 **WITH ULH&P FOR THE FIXED BILL PROGRAM?**

4 A. Yes. The service agreement will contain the customer’s specific fixed bill
5 amount, the eligibility requirements, and the terms and conditions for service.
6 The customer must commit to the Fixed Bill Program for 12 months. Thereafter,
7 as long as the customer continues to meet the eligibility criteria, ULH&P will
8 recalculate a new 12 month fixed bill amount using past usage data, including the
9 previous year’s consumption data. Customers will be sent a re-enrollment letter
10 at least 45 days prior to the end of the 12-month period, providing them the new
11 fixed bill amount, and a comparison showing the highest and lowest monthly
12 payments under standard residential tariff for the previous 12 months. Customers
13 will be informed that they will be automatically re-enrolled in *Your FixedBill*,
14 unless they request to be switched back to standard residential tariff.

15 **Q. CAN CUSTOMERS BE REMOVED FROM THE FIXED BILL**
16 **PROGRAM FOR EXCESSIVE USAGE?**

17 A. Yes, without the ability to remove customers from the Fixed Bill Program, there
18 is the opportunity to game the Fixed Bill Program. Each participant’s actual
19 usage will be automatically reviewed each month and compared to their expected
20 usage based on the actual weather and number of days during the customer’s
21 billing period. If the customer’s actual usage is 20% greater than expected for
22 any month, ULH&P reserves the right to send the customer a warning letter. This
23 letter will document the customer’s excess usage level and warn them that they

1 could be removed from the program if such excessive usage occurs again. If
2 usage is more than 20% higher than the expected level in a second month, the
3 customer may be removed from the program or choose a recalculated fixed bill
4 amount, which reflects the increased usage. Additionally, in cases of extreme
5 excess usage, ULH&P reserves the right to remove the customer from the Fixed
6 Bill Program after the first month of increased usage above 20%.

7 **Q. WHY MUST ULH&P RETAIN THE RIGHT TO REMOVE A**
8 **CUSTOMER FOR EXCESSIVE USAGE?**

9 A. Without the ability to remove customers for excessive usage, the opportunity
10 exists to game the Fixed Bill program. Possible examples include:

- 11 ○ Adding a building addition;
- 12 ○ Dramatically changing heating and/or air conditioning behaviors

13 Most fixed bill options have some provision to protect the utility from excessive
14 increased usage. This process will deter customers from gaming the program.

15 In cases of excess usage, ULH&P will give such a customer a choice: (1)
16 they can return to standard residential tariff, paying the difference between
17 residential rate and their fixed bill amount for the time they were on the program,
18 and pay an administrative fee of \$50; or (2) they can accept a newly calculated
19 fixed bill amount which is based on the new usage. ULH&P will consider each
20 customer individually regarding excessive consumption. ULH&P will work with
21 excessive usage customers in order to preserve and enhance customer satisfaction.
22 ULH&P customer service representatives will be trained specifically to serve the
23 *Your FixedBill* customers.

1 **Q. IS THERE ANY OTHER REASON THE CUSTOMER CAN BE**
2 **REMOVED FROM THE FIXED BILL PROGRAM?**

3 A. The fixed bill amount is calculated on the customer's weather normalized historic
4 usage at a specific residence. If the customer moves such that there is a tenant
5 change, ULH&P must remove the customer from the Fixed Bill Program at that
6 time. The customer's bill from the time of current enrollment to the time of
7 removal will be recalculated at the standard residential tariff rate, and compared
8 to the fixed bill amount paid. Any difference owed by the customer will be billed
9 to the customer. If the customer's standard contract tariff bill is less than the
10 amount paid under *Your FixedBill*, the difference will not be credited to the
11 customer. This customer will not be charged any administrative fees.

12 Finally, a customer may become in arrears on their fixed bill monthly
13 payments. In this case, the customer will be treated the same as any other
14 residential customer who is in arrears, including the application of late payment
15 charges, entering into payment arrangement plans, and disconnection if
16 appropriate. If the customer enters into a payment arrangement plan or is
17 disconnected, the customer will be removed from the Fixed Bill Program at that
18 time, charged the program's removal charges (described below), and may not re-
19 enroll in the Fixed Bill Program until the next enrollment period where the
20 customer meets the eligibility requirements.

21 **Q. WHAT ARE THE REMOVAL CHARGES?**

22 A. The removal charges and the instances where they will apply to a customer who is
23 removed from the Fixed Bill Program are clearly listed in the Terms and

1 Conditions section of Rider FXB-G and Rider FXB-E and will be given to
2 customers upon solicitation. ULH&P will calculate what the customer would
3 have paid under the standard residential tariff including applicable riders during
4 the period the customer was on the Fixed Bill Program. If the customer has paid
5 less than standard residential tariff, they will be charged the difference. If they
6 paid more than standard residential tariff, the difference will not be credited to the
7 customer. In either case, the customer may be charged an administrative fee of
8 \$50 and will be returned to the previous standard residential tariff.

9 **Q. WHY DO YOU PROPOSE TO CHARGE CUSTOMERS REMOVED**
10 **FROM THE FIXED BILL PROGRAM THE REMOVAL CHARGES?**

11 A. There are certain costs associated with administering the Fixed Bill Program.
12 They include soliciting participation, educating customers, processing
13 applications, direct contact with customers, calculating the fixed bill amount,
14 program administration, and monthly usage monitoring. It is fair that those who
15 are removed from the program not leave the costs they have caused unpaid.
16 However, of equal importance, the \$50 administrative fee and payment of the
17 removal charges provides an incentive for customers to keep their commitment to
18 stay on the voluntary Fixed Bill Program for the twelve (12) months that they
19 agreed to. The removal charges discourage customers from gaming the program,
20 *i.e.*, getting on the program when the fixed bill amount is low, and then
21 voluntarily withdrawing when standard residential tariff is lower.

22 **V. MARKETING AND CUSTOMER DISCLOSURES**

23 **Q. HOW WILL YOUR *FIXEDBILL* BE MARKETED?**

1 A. ULH&P's goal is to maximize customer satisfaction by allowing them to make
2 the most suitable choice amongst the various billing and payment options
3 available. Eligible customers will receive a direct mail solicitation from ULH&P.
4 The customer will be advised of the availability of the Fixed Bill Program and
5 their monthly fixed bill amount in conjunction with a comparison to what the
6 highest and lowest monthly standard residential tariff amount has been over the
7 previous 12 months. The marketing material of the Fixed Bill Program will
8 provide general program information, as well as clearly disclosing that the
9 customer may pay more under the program, that there is an embedded program
10 fee, and that removal charges may apply for those who withdraw or are removed
11 from the program before the end of the 12-month period. The terms and
12 conditions of the Fixed Bill Program will be provided to customers upon
13 solicitation. A sample of the proposed direct mail piece that would be mailed to
14 combination electric and gas customers is attached as Attachment MG-1.
15 Appropriate changes will be made to Attachment MG-1 for gas or electric only
16 customer solicitations. It is ULH&P's intent to clearly inform the customer about
17 the Fixed Bill Program. If requested, sample marketing materials, solicitations,
18 terms and conditions, and warning letters will be made available to the
19 Commission's Division of Consumer Services prior to mailing to customers.

20 **Q. HOW WILL CUSTOMERS ENROLL?**

21 A. Customers can enroll by sending back the direct mail response card, calling
22 ULH&P, or via ULH&P's internet site. All telephone enrollments will be
23 recorded and kept for a period of 19 months. All other enrollments will be

1 retained for a period of two years. After the enrollment is received, the customer
2 will be mailed an order confirmation letter.

3 **Q. PLEASE EXPLAIN ATTACHMENT MG-2.**

4 A. Attachment MG-2 is a sample copy of ULH&P's Fixed Bill customer's monthly
5 bill. It is similar to ULH&P's condensed bill format. It includes a simple, easy to
6 understand statement of the kWh consumed and the fixed bill amount due.

7 **VI. REQUEST FOR COMMISSION APPROVAL**
8 **OF YOUR FIXEDBILL**

9 **Q. PLEASE SUMMARIZE ULH&P'S REQUEST IN THIS PROCEEDING?**

10 A. Generally, ULH&P is requesting the Commission to approve the Fixed Bill
11 Program because it is a voluntary, competitive billing option. Specifically,
12 ULH&P is requesting the flexibility to determine individual customers' fixed bill
13 amount within the parameters described in Rider FXB-G and Rider FXB-E,
14 including a program fee. Since ULH&P is taking on the weather, usage and cost
15 fluctuation risk, the fixed bill calculation must include a program fee. ULH&P
16 desires the flexibility to set the program fee on an annual and per customer basis.
17 Of course, if the program fee is set too high, customers will not sign up and the
18 program will not be successful. That fact alone gives ULH&P an adequate
19 incentive to keep the program fee at a reasonable level. However, ULH&P is also
20 willing to commit that the program fee for the Fixed Bill Program will not go
21 above 10%.

22 ULH&P is also requesting that profits and/or losses from the program
23 (related to the difference from the amount collected and what would have been

1 paid under tariff) be treated “below the line” for regulatory purposes. As a result,
2 both the program costs and revenues would be excluded from the calculation of
3 ULH&P’s revenue requirement in any future general gas or electric rate
4 proceedings. This way, any customer who is not eligible or who does not choose
5 to be on the Fixed Bill Program will not be affected by the program results. Other
6 fixed bill options we have researched throughout the state and country treat the
7 profits/losses below the line as well for regulatory purposes. The vagaries of
8 weather and the economy or even simple additions or deletions to a customer’s
9 family may cause customers to use more or less gas and electricity than can
10 reasonably be predicted. It is appropriate to treat the profits/losses of the program
11 below the line for regulatory purposes. The ratemaking/accounting treatment is
12 described in more detail in the testimony of ULH&P witness Mr. Jeffrey L.
13 Pipher.

14 Because this is a completely voluntary program and because ULH&P’s
15 marketing and customer information concerning the program will accurately
16 communicate the benefits and risks of the program, ULH&P believes that it is
17 appropriate for the Commission to approve this program. *Your FixedBill* is a
18 voluntary billing option, which is marketed as a customer convenience. It is
19 intended for those who put a premium on complete monthly bill predictability and
20 prefer that option over traditional standard tariff billing or monthly budget billing
21 with annual true-up. It is appropriate that the requested accounting treatment for
22 *Your FixedBill* be approved with resulting losses or profits accounted for below
23 the line.

1 **Q. DO YOU CONSIDER FIXED BILL A COMPETITIVE BILLING**
2 **OPTION?**

3 A. Yes. Normal monthly tariff billing and monthly budget billing with annual settle-
4 up payment reflect charging customers actual approved rates and rider
5 adjustments for the exact amount of energy used. While monthly budget billing
6 may charge the same amount for a period of months, thereafter, a reconciliation is
7 necessary. The only way customers can be offered a completely fixed,
8 reconciliation free bill is for some entity to absorb the risk that the amount they
9 pay each month may fail to accurately reflect the actual cost of service to the
10 customer. ULH&P's willingness to absorb that risk below the line through the
11 provision of the Fixed Bill Program is clearly a competitive alternative to the
12 precise regulated rate billing calculations reflected on normal monthly billing and
13 monthly budget billing with reconciliation. It guarantees customers the ease of
14 writing the same check every month for twelve months in a row with no
15 reconciliation. The Fixed Bill Program offers the peace of mind and comfort of
16 knowing there will not be large summer bills due to air conditioning load or large
17 winter bills due to heating load or large end of year settle-up payment.

18 Additionally, ULH&P is in direct competition with unregulated
19 providers of heat who may have the ability to offer fixed options of their own, as
20 described below.

21 Most importantly, the Fixed Bill Program is completely voluntary. After
22 having a full understanding of the program, a customer is free to choose
23 traditional monthly billing, one of ULH&P's Budget Billing Programs, or the

1 Fixed Bill Program. Customers appreciate choices and customers should have the
2 ability to make the choices that best suit their needs. We believe there are many
3 customers that will prefer *Your FixedBill*.

4 **Q. TO WHAT EXTENT ARE COMPETITIVE FORCES RELEVANT TO**
5 **THE COMMISSION'S DECISION WHETHER TO APPROVE *YOUR***
6 ***FIXEDBILL*?**

7 A. ULH&P is in direct competition with non-regulated providers of heat that may
8 offer such fixed bill options. ULH&P's customers have the choice of heating
9 their homes with gas or electricity or some other non-regulated heat source such
10 as propane or fuel oil. ULH&P's billing options are in direct competition with
11 billing options made available by those non-regulated providers of heat.

12 The fixed or flat bill is a common practice in many industries from basic
13 telephone service to internet service. We believe it is an option that gas and
14 electricity customers are coming to expect in other areas, and we want the ability
15 to offer it to maintain customer satisfaction.

16 Moreover, the fixed bill option stands in competition with the standard
17 tariff and budget billing options. If the customer perceives the fixed bill amount
18 to be too high, relative to these other options, they will not choose the fixed bill
19 option. This level of choice provided to customers renders additional regulatory
20 oversight less necessary.

21 Additionally, ULH&P is also competing with other utilities in the annual
22 J.D. Power customer satisfaction survey. With a fixed bill offering, ULH&P

1 customers' level of satisfaction could increase, positively impacting the
2 Company's J.D. Power scores.

3 Finally, the program would benefit all ULH&P customers to the extent
4 that the program would prevent ULH&P customers from migrating to other
5 vendors of heat commodities that offer a fixed bill, because ULH&P could keep it
6 rates lower, by spreading its fixed costs over a larger customer base.

7 **Q. HOW WOULD ULH&P'S CUSTOMERS BENEFIT FROM YOUR**
8 ***FIXEDBILL?***

9 A. Again, this is a completely voluntary option. There are many customers that will
10 benefit from this billing option. The experience of other utilities with similar
11 fixed bill options shows that customers find value in a fixed bill. For instance, the
12 re-enrollment rate for Georgia Power after its first few years of offering the Flat
13 Bill program was over 90%. The Fixed Bill Program is an innovative pricing
14 mechanism – nothing in the program will change the reliability, quality or
15 efficiency of gas and electric service that ULH&P's customers have come to
16 expect. ULH&P will benefit by being able to provide customers choices and
17 improve customer satisfaction. We know that even if a customer does not choose
18 a particular option, they like having the opportunity to choose. Increased
19 customer satisfaction benefits ULH&P through improved public relations with its
20 customers and the maintenance of a strong competitive position against
21 alternative providers of heat. ULH&P has a history of investigating and offering
22 innovative rate options. The Fixed Bill Program is just such an offering.

1 Generally, we believe ULH&P's customers will be served by the Fixed Bill
2 Program.

3 **VII. CONCLUSION**

4 **Q. WERE ATTACHMENTS MG-1 AND MG-2 PREPARED BY**
5 **YOU OR UNDER YOUR DIRECTION?**

6 A. Yes, they were.

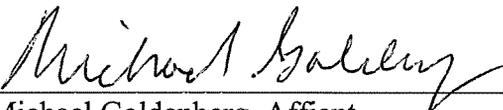
7 **Q. DOES THIS CONCLUDE YOUR PREPARED DIRECT TESTIMONY?**

8 A. Yes.

VERIFICATION

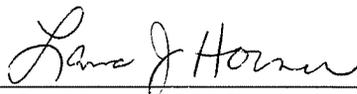
State of Indiana)
)
County of Hendricks) SS:

The undersigned, Michael Goldenberg, being duly sworn, deposes and says that he is the Manager, Product Management, Cinergy Services, Inc., that he has personal knowledge of the matters set forth in the foregoing testimony, and that the answers contained therein are true and correct to the best of his information, knowledge and belief.



Michael Goldenberg, Affiant

Subscribed and sworn to before me by MICHAEL GOLDENBERG on this 5th
day of NOVEMBER, 2004.



NOTARY PUBLIC LANA J. HORNER

My Commission Expires: 4/19/2007

RECEIVED
NOV 08 2004
LEGAL DEPT
CINERGY CORP.

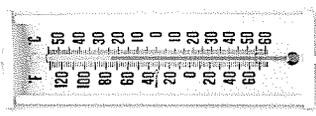
**THE NEXT BEST THING
TO CONTROLLING
THE WEATHER.**

**12 MONTHS.
1 PRICE.
NO SURPRISES.**

**REASONS TO CHOOSE
YOUR FIXEDBILL.**

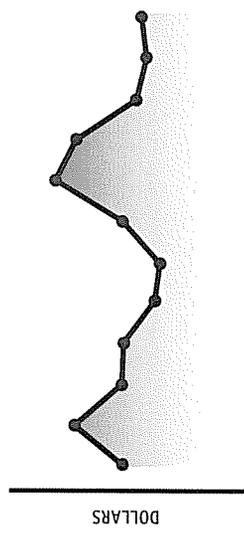
With the new *Your FixedBill* payment plan from Cinergy/ULH&P, you pay the **same guaranteed amount** for your energy every month.

- 1 Eliminates high seasonal bills.
- 2 No year-end settlement
- 3 Gives you absolute month-to-month predictability of your energy bill... and **no surprises!**

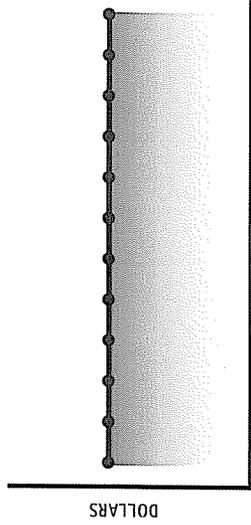


YOUR FIXEDBILL

Cinergy/ULH&P • 139 East Fourth Street
Cincinnati, Ohio 45202
1.800.544.6900 | www.cinergy.com/yourfixedbill



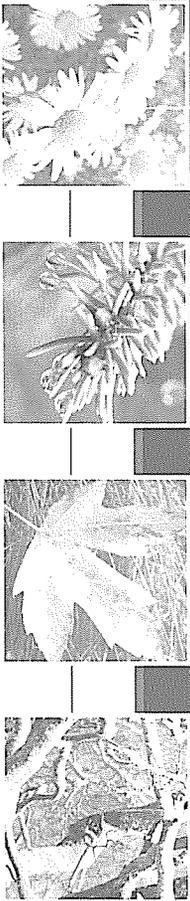
YOUR REGULAR ENERGY BILL.



YOUR FIXEDBILL.



TAKE THE SEASONAL HIGHS AND LOWS OUT OF YOUR ENERGY BILL.



NO MORE SURPRISES!
Hot, humid summers. Cold, windy winters. Both can cause spikes and surprises in your monthly energy bill. And who needs that?

With *Your FixedBill* payment plan from Cinergy/ULH&P, those monthly high and low energy bills are replaced by one fixed monthly amount... regardless of how much energy you use. You know exactly how much your energy bill will be before it arrives. And, there's no year-end settlement!

12 FULL MONTHS OF CONVENIENCE!
Your FixedBill is an optional payment plan. You're under no obligation to accept this offer. If you do accept this offer, you'll enjoy the convenience of paying the same fixed monthly amount for an entire year. At the end of the 12-month contract period, you then have the option of remaining on *Your FixedBill* (at an adjusted rate based on your actual usage) or returning to your previous payment plan. No penalty. No settlement. It's that simple.

YOUR FIXEDBILL IS CUSTOMIZED FOR YOU!
Your FixedBill monthly amount is calculated by averaging your previous energy usage and takes into consideration weather patterns in your local area, anticipated increases in your usage, as well as a program fee to cover any unexpected weather extremes during the contract period. The amount will not be more than 10% above your expected usage adjusted for normal weather. That means *Your FixedBill* amount is customized especially for you and the way you use energy.

AT THE END OF YOUR 12 MONTH AGREEMENT...
Prior to the expiration of *Your FixedBill* agreement, you will receive a new offer amount for the next 12 months. The new amount will be based on your actual usage from the first contract. If you use less energy than expected, the new amount may be lower.

You can choose to continue the convenience and predictability of *Your FixedBill*, or return to your previous rate schedule. The choice is yours.

IF YOU LEAVE THE PROGRAM EARLY...
If you're not satisfied with *Your FixedBill* plan, you may withdraw before the end of the 12-month agreement. However, there is a \$50 Early Withdrawal charge and you

must pay the difference between what you paid on *Your FixedBill* and what you would have paid under your standard rate schedule. You may not return to the *Your FixedBill* Payment plan for 12 months.

Also, in the unlikely event your usage increases by 20% for any one month (excluding weather extremes), Cinergy/ULH&P retains the right to remove you from the program, or recalculate *Your FixedBill* monthly amount. There is no fee for early withdrawal should you move.

SIGN-UP TODAY FOR YOUR FIXEDBILL PAYMENT PLAN FROM CINERGY/ULH&P.
12 months. One price. No surprises. But you must act quickly. Enrollments in *Your FixedBill* plan are available only for a short time. Please take a moment now to sign and return the enclosed enrollment form. Or, if you prefer, call 1.800.544.6900, or enroll online at www.cinergy.com/yourfixedbill.

CINERGY / ULH&P YOUR FIXEDBILL

TERMS AND CONDITIONS

1. The customer shall enter into a Service Agreement with the Company that shall specify the monthly Fixed Bill amount that the customer will be required to pay.
2. The term of the Service Agreement will be for twelve (12) months. Before the 12-month Fixed Bill period is over, a new Fixed Bill amount for the following year will be calculated and the customer will be notified of the new contractual amount. Service Agreements will automatically renew at the new Fixed Bill amount for the following year, unless the customer notifies the Company otherwise.
3. Removal from the program:
 - A. *Move From Current Residence.* If customer has moved from his or her current residence so that there is a tenant change, before the 12 month Service Agreement period expires, Company will calculate what the customer would have paid under Standard Residential Tariff, including applicable riders during the Fixed Bill Service Agreement period. If the customer has paid less than Standard Residential Tariff, the customer will be charged the difference. If the customer has paid more than Standard Residential Tariff, the customer will not be credited with the difference. There will be no Administration Fee applied to these customers.
 - B. *Delinquent Fixed Bill Payments.* If a customer becomes delinquent in the Fixed Bill payments, Company will follow standard procedures for Standard Residential Tariff customers. If customer enters into a payment arrangement plan or is disconnected for nonpayment, customer will be removed from the Fixed Bill Program, and Applicable Removal Charges will apply.
 - C. *Increased Actual Usage over Expected Usage.* If customer has actual usage for any month that is 20% greater than expected usage, then Company has the right to re-price the Fixed Bill amount for the customer based on the updated usage information. If the customer does not accept the new Fixed Bill amount then customer will be removed from the Fixed Bill Program, and Applicable Removal Charges will apply.
 - D. *Customer Voluntary Removal.* If customer chooses to leave the Fixed Bill Program prior to the end of the 12-month Service Agreement period, customer will be removed from the Fixed Bill Program, and Applicable Removal Charges will apply. After the end of the Service Agreement period, eligible customers may choose to enter into another 12-month Fixed Bill Service Agreement, or return to Standard Residential Tariff. In either event, no Applicable Removal Charges will apply.
 - E. *Estimated Meter Reads.* If customer has two or more estimated meter reads during the Fixed Bill Service Agreement period where the meter reader was unable to gain access to the meter, then the customer may be removed from the Fixed Bill Program, where Applicable Removal Charges will apply.
 - F. *Other Reason.* If customer leaves or is removed from the Fixed Bill Program before the end of the Service Agreement period for any other reason, Applicable Removal Charges will apply.
4. Applicable Removal Charges. In items B through F above, Company will calculate what customer would have paid under Standard Residential Tariff, including applicable riders during the Fixed Bill Service Agreement period. If the customer has paid less than Standard Residential Tariff, they will be charged the difference. If they paid more than Standard Residential Tariff, the difference will not be credited. In either case, the customer may be charged an Administration Fee of \$50 and will be returned to the previous Standard Residential Tariff.

----- Account Number 1212-1212-12-4 80 21

Mmm DD, YYYY

\$ 142.51

\$
xxxxxxxxx Contribution

\$
Amount Enclosed

----- Current Customer
12345 Your Street
----- Your City ST 12345-1234

PO Box 740399
Cincinnati OH 45274-0263

100 00000132514 12121212124 mmdyyy2 0000144657

Page 1 of 1

Current Customer Cinergy/CG&E 1-800-123-4567 1212-1212-12-4
12345 Your Street
Your City ST 12345

PO Box 740399 Payments after Mmm dd not included Bill Prepared on Mmm dd, yyyy
Cincinnati OH 45274 Last payment received Mmm dd Next meter reading date Mmm dd, yyyy

Urgent Messages are printed in this section of the bill

Gas	111111111	m m m d d	m m m d d	31	2328	2431	103
Elec	222222222	m m m d d	m m m d d	31	6803	8069	1266

Usage -	103 CCF	
Cinergy/XXX - Rate GS		\$ 89.00
Fixed Bill Gas Charges		\$ 89.00

Amt Due - Previous Bill	\$ 198.23
Payment(s) Received	198.23
Balance Forward	0.00
Fixed Bill Gas Charges	89.00
Fixed Bill Electric Charges	45.00
Current OL Charges	8.51
Current Amount Due	\$ 142.51

Usage -	1,266 kWh	
Cinergy/XXX - Rate RS		\$ 45.00
Fixed Bill Electric Charges		\$ 45.00

Qty 1	Usage - 222 kWh	
Cinergy/XXX		\$ 8.51
1 @ Rate XXX		\$ 8.51
Current OL Charges		\$ 8.51

MMM dd yyyy

\$ 142.51

\$ 144.65

RECEIVED

DEC 13 2004

**PUBLIC SERVICE
COMMISSION**

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of the Application of The Union)
Light, Heat and Power Company for Authority)
to Implement a Fixed Bill Program) Case No. 2004-00503
)
)
)

DIRECT TESTIMONY OF

TODD W. ARNOLD

ON BEHALF OF

THE UNION LIGHT, HEAT AND POWER COMPANY

December 10, 2004

TODD W. ARNOLD

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**TESTIMONY OF TODD W. ARNOLD
VICE PRESIDENT, CUSTOMER CARE
CINERGY SERVICES, INC.
ON BEHALF OF
THE UNION LIGHT, HEAT AND POWER COMPANY
BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION**

I. INTRODUCTION

1
2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?**

3 A. My name is Todd W. Arnold. My business address is 139 East Fourth Street, Cincinnati,
4 Ohio 45202.

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am Vice President, Customer Care, of Cinergy Services, Inc., the service company
7 affiliate of The Union Light, Heat and Power Company (“ULH&P”).

8 **Q. PLEASE BRIEFLY DESCRIBE YOUR JOB DUTIES AS VICE PRESIDENT
9 CUSTOMER CARE.**

10 A. As Vice President of Customer Care I oversee several key areas of responsibility. One
11 area is Customer Contact Services which handles telephone, email, chat, and faxed
12 communications from our customers related to customer service, credit, and a variety of
13 service matters. Another area is Business Services – this group responds to the special
14 needs of our large commercial and industrial customers. Business Services includes a
15 call center as well as specialists and engineers who meet face to face with our customers.
16 The Products and Services area provides various regulated (DSM) and non-regulated
17 products and services to our residential customers. Service Delivery is responsible for
18 responding to service requests such as turn-ons, turn-offs, gas trouble, and meter
19 investigations. An additional area is our field offices where customers may visit our

TODD W. ARNOLD

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1 offices for bill payment and billing inquiries, as well as other customer service needs.
2 The final area is Customer Care Services, where we manage our customer contact
3 surveys and analyze the data for process improvement. This group also manages various
4 billing programs and services such as e-Bill, BillPayer 2000, the Budget Billing Program
5 and our Helping Hand fuel fund. This group also manages ULH&P's Online Services
6 internet applications as well as develops and maintains the website content associated
7 with customer service.

8 **Q. PLEASE BRIEFLY DESCRIBE YOUR PROFESSIONAL AND EDUCATIONAL**
9 **BACKGROUND.**

10 A. I received a Bachelor's Degree in Marketing from Indiana State University in 1977 and a
11 Master's Degree in Business Administration from the University of Indianapolis in 1986.
12 I began my career with PSI Energy, Inc. ("PSI"), ULH&P's Indiana operating company
13 affiliate, in 1977 in field sales and marketing. I have served in many customer
14 operations, distribution operations and corporate office capacities. I have my "Strategic
15 Leader" professional certification from the Call Center Industry Advisory Council
16 ("CIAC"). CIAC is a not for profit corporation established by the call center industry to
17 provide standardized competency-based professional certification for call center leaders.
18 I am currently a member of the Board of Directors of People Working Cooperatively.

19 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

20 A. To provide an overview of the various billing and customer options that ULH&P
21 provides to its customers, and to explain how the proposed Fixed Bill Program, *Your*
22 *FixedBill*, will complement those offerings.

TODD W. ARNOLD

-3-

1 **II. ULH&P's CURRENT BILLING AND PAYMENT OPTIONS**

2 **Q. PLEASE BRIEFLY EXPLAIN THE DIFFERENT PAYMENT METHODS**
3 **OFFERED BY ULH&P.**

4 A. ULH&P believes it is important to give customers choices in their method of payment for
5 gas and electric utility service. Customer satisfaction data tells us that customers are
6 more satisfied when they have more bill payment options. According to the J. D. Power
7 and Associates 2004 Electric Utility Customer Satisfaction Study, more and more
8 customers are electing to use alternative bill payment methods every year. In fact,
9 according to the same study, customers that stated they pay their bills using a level
10 payment plan were more satisfied with the usefulness of their bill payment options, the
11 billing and payment process overall and their overall customer satisfaction was higher
12 than those who pay otherwise. As a result, we continue to look for options that provide
13 customers with added convenience, while helping them to better manage their gas and
14 electric utility bill.

15 Recently, we have established “pay stations” in various parts of Kentucky. These
16 Pay Stations enable customers to pay their ULH&P bill at local retailers, who typically
17 offer extended hours of operation. In 2003, we began offering e-Bill, a free program that
18 allows the customer to view and pay their ULH&P bill via the Internet. In a relatively
19 short period of time, we have had more than 9,400 ULH&P customers enroll in this
20 program. Payments can also be automatically deducted from a customer’s checking or
21 savings account through BillPayer 2000 for a minimal fee. We have over 3,600
22 customers enrolled in BillPayer 2000 at this time.

TODD W. ARNOLD

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1 For a transaction fee, customers can also choose to pay their ULH&P bill by
2 electronic check or by credit/debit card, using Speedpay. In the last year, Speedpay
3 processed more than 93,000 Cinergy payments through check or credit/debit card.
4 Offering this service enables customers to pay at the last minute or at a time that is
5 convenient for them. Customers can also pay at any of our customer service offices as
6 well as the traditional method of paying by mail.

7 **Q. PLEASE DESCRIBE THE VOLUNTARY BILLING OPTIONS ULH&P OFFERS**
8 **TO RESIDENTIAL CUSTOMERS.**

9 A. The most popular billing option is ULH&P's Budget Billing Program, which helps
10 customers manage their monthly energy costs by setting a monthly billing amount based
11 on an average annual cost. There are two Budget Billing Program options. Under the
12 "*Quarterly*" *Budget Billing plan*, we review the customer's account every three months
13 and adjust the budget billing amount to better reflect the actual energy use. Because the
14 amount owed is adjusted throughout the year, these customers avoid a settle up payment
15 in the twelfth month, with any credit or balance owed is rolled over into the next 12
16 months' monthly bill installment. Under the "*Annual*" *Budget Billing plan*, the
17 customer's monthly payments remain the same each month, and in the 12th month, the
18 customer is billed or credited for any difference between actual usage and the total
19 amount paid during the budget billing year. ULH&P currently has over 18,000
20 customers on its Budget Billing Program.

21 Additionally, if a customer desires to have a different due date, we offer Adjusted
22 Due Date, where customers can extend their normal billing due date up to 10 calendar
23 days to better align with their pay date (*i.e.*, changing the due date to after a Social

1 Security or pension payment arrives).

2 ULH&P also offers extended payment plans to eligible customers who are having
3 difficulty paying their entire bill by the due date. Typically, these payment arrangements
4 range from 1 to 6 months, depending upon the customer's need.

5 To also help customers who are having difficulty paying their ULH&P bill, we
6 manage the Winter Care Program, an energy assistance program available to customers
7 with an annual household income of 110% of the poverty level. This year, over \$30,000
8 has been disbursed to more than 260 customers through the Care Winter Program.

9 ULH&P also offers a Green Power rider, where a customer can voluntarily
10 contribute to funds for the development or purchase of green power resources.

11 Finally, ULH&P offers various demand-side management programs, including
12 Home Energy House Call (offers customers a free in-home audit), and Power Manager, a
13 direct load control program, where residential customers can receive a one time sign up
14 credit as well as event credits on their utility bills when ULH&P cycles their air
15 conditioning unit at times of system peak demand.

16 **III. ULH&P'S YOUR FIXEDBILL PROPOSAL**

17 **Q. PLEASE DESCRIBE ULH&P'S PROPOSED FIXED BILL PROGRAM.**

18 A. *Your FixedBill* is a voluntary billing option which offers customers the convenience of
19 receiving a predetermined, completely predictable, monthly bill for a one year period,
20 regardless of weather variations, usage changes, or changes in utility operating costs.
21 Unlike ULH&P budget billing customers, those choosing the Fixed Bill Program will not
22 face any adjustments or annual true ups to reconcile their budgeted amount against their

TODD W. ARNOLD

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1 actual amount. The Fixed Bill Program is a billing option designed to shift the risk of
2 monthly bill fluctuations from the consumer to the utility.

3 The Fixed Bill Program eliminates billing uncertainty and risk to customers. This
4 voluntary billing option provides customers the comfort and peace of mind of knowing
5 how much they will pay each month for the next twelve months regardless of weather,
6 usage or price fluctuations, without any end of year true up.

7 **Q. WHY HAS ULH&P CHOSEN TO OFFER THE FIXED BILL PROGRAM?**

8 A. The Fixed Bill Program is offered to enhance customer satisfaction by broadening the
9 portfolio of billing options available to ULH&P customers. Research demonstrates that
10 customers appreciate having choices and options. In addition, although our Budget
11 Billing Program is currently our most popular billing option, a study of customers
12 revealed that many customers disliked the annual plan due to the uncertainty of the settle-
13 up amount. The problem with the settle-up was the “surprise” at the end of the twelve
14 month period. This true-up probably kept some customers from ever enrolling the
15 Budget Billing Program. The amount owed was a surprise and also impacted the next
16 year’s budget billing amount. Customers expressed a desire to pay a fixed amount
17 without the worry of a settle-up bill. Customers also did not like when their budget
18 billing installment fluctuated – especially if abnormal activities occurred on the accounts,
19 such as estimated reads or missed payments, causing it to vary too much.

20 Customer’s billing and payment preferences can vary with their personal
21 preferences. To satisfy customer needs, ULH&P currently offers several billing and
22 payment options as previously described. We view the Fixed Bill Program as an
23 additional billing option for those customers who are willing to voluntarily pay a program

1 fee for the convenience, certainty, and peace of mind of paying the same amount each
2 month with no settle-up or reconciliation at the end of the 12-month period.

3 **Q. DO YOU BELIEVE ULH&P CUSTOMERS WANT TO PARTICIPATE IN A**
4 **FIXED BILL OFFERING?**

5 A. Yes. Our research shows that customers are interested in having a completely fixed bill
6 option for their monthly electric bills. Completely fixed bill options are growing in
7 popularity throughout the United States. East Kentucky Power Cooperative, Inc. (EKPC)
8 recently proposed a fixed bill program, and the Commission is currently reviewing
9 EKPC's proposal in Case No. 2004-00330. In Indiana, Indianapolis Power & Light Co.
10 and Northern Indiana Public Service Company both offer fixed bill options. A survey of
11 residential customers conducted by J.D. Power and Associates in 2004 shows that
12 approximately 17% of customers are on a level payment plan. Additionally, the
13 enrollment and renewal success of similar programs at Georgia Power, Progress Energy
14 and Duke Power demonstrate the customer's desire for participating in a fixed bill
15 program. As described in more detail by ULH&P witness Mr. Michael Goldenberg,
16 Cinergy/PSI conducted a small pilot with its employees of a fixed bill option last year. A
17 survey of these customer/employees demonstrated an overwhelmingly positive reaction.
18 It is ULH&P's belief that *Your Fixed Bill* is a product that customers desire. And with
19 the right program parameters, ULH&P is willing to take on the risk of providing this
20 product.

TODD W. ARNOLD

-8-

1 IV. CONCLUSION

2 Q. DOES THIS CONCLUDE YOUR PREPARED DIRECT TESTIMONY?

3 A. Yes.

TODD W. ARNOLD

-9-

VERIFICATION

State of Ohio)
)
County of Hamilton) SS:

The undersigned, Todd W. Arnold, being duly sworn, deposes and says that he is the Vice President, Customer Care, Cinergy Services, Inc., that he has personal knowledge of the matters set forth in the foregoing testimony, and that the answers contained therein are true and correct to the best of his information, knowledge and belief.



Todd W. Arnold, Affiant

Subscribed and sworn to before me by Todd W. Arnold on this 8th day of November, 2004.



NOTARY PUBLIC

Pamela C. Johnson
My Commission Expires: 9-9-06

TODD W. ARNOLD

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED
DEC 13 2004
PUBLIC SERVICE
COMMISSION

In the Matter of the Application of The Union)
Light, Heat and Power Company for Authority)
to Implement a Fixed Bill Program) Case No. 2004-00503
)
)
)

DIRECT TESTIMONY OF
THOMAS L. OSTERHUS
ON BEHALF OF
THE UNION LIGHT, HEAT AND POWER COMPANY

December 10, 2004

**TESTIMONY OF THOMAS L. OSTERHUS
MANAGER, MARKET RESEARCH
CINERGY SERVICES, INC.
ON BEHALF OF
THE UNION LIGHT, HEAT AND POWER COMPANY
BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION**

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Thomas L. Osterhus and my business address is 139 East Fourth Street,
3 Cincinnati, Ohio 45202.

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am employed by Cinergy Services, Inc. a service company affiliate of ULH&P.
6 (“ULH&P”) as Manager of Market Research.

7 **Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
8 **BUSINESS EXPERIENCE.**

9 A. I have an undergraduate degree from Dartmouth University in Biology, and graduate
10 degrees from the University of Cincinnati including a Masters of Business
11 Administration, a Masters of Quantitative Analysis and Statistics, and a PhD in
12 Marketing. From 1987 to 1990, I was employed by Burke Marketing Research, located
13 in Cincinnati, Ohio. From 1990 to 1994, I worked for The Cincinnati Gas & Electric
14 Company supporting the planning, design and evaluation of demand-side management
15 programs. Since 1994, I have been employed by Cinergy Services, Inc., currently in the
16 role of Manager, Market Research.

17 **Q. PLEASE BRIEFLY DESCRIBE YOUR DUTIES AND RESPONSIBILITIES AS**
18 **MANAGER, MARKET RESEARCH.**

1 A. As Manager, Market Research, I have responsibilities for a variety of analytical functions
2 including market research data collection and analysis, DSM cost effectiveness analysis
3 and impact evaluation studies, individual customer load usage analysis, and customer
4 satisfaction measurement.

5 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

6 A. The purpose of my testimony is to explain how, under the Fixed Bill Program, ULH&P
7 calculates a customer's expected usage for the following 12 months.

8 **Q. WHAT IS THE METHODOLOGY USED TO CALCULATE A CUSTOMER'S
9 EXPECTED USAGE?**

10 A. For this program, ULH&P uses the customer's past usage data to construct a regression
11 model, which is then used to predict the expected usage under normal conditions, as well
12 as under mild and/or more extreme weather conditions.

13 **Q. HOW IS THE REGRESSION MODEL CONSTRUCTED?**

14 A. Attachments TLO-1 to TLO-3 provide a detailed example of how we calculate a
15 reasonable regression model from a customer's past usage data. In Attachment TLO-1,
16 the past usage data is provided for Cinergy/PSI Employee Pilot Program Participant # 3,
17 starting with the meter read date taken on October 5, 2000. The number of heating
18 degree days ("HDD") and cooling degree days ("CDD") for this billing period are
19 provided in the data columns to the right. Using this data, a regression model is
20 estimated. It is provided in Attachment TLO-2. For this customer, using the actual data
21 history from October 5, 2000 through May 8, 2003, along with the corresponding HDDs
22 and CDDs for each of these months, the regression model predicts that this customer's
23 monthly energy use can be best estimated from weather data with the following equation:

1 Monthly Usage (kWh) = 424.034 + 3.572*HDD + 7.088*CDD. To predict the energy
2 usage for any given month, we can insert the HDD and CDD values for that month to
3 determine what the usage is likely to be for that month. How well we are able to predict
4 this monthly usage depends on the quality of the regression model and the data on which
5 it is based. The quality of the model is based on three primary measures. First, the R-
6 squared value is .926, which indicates that 92.6% of the variance observed in the data can
7 be explained by our equation. This level of R-squared is fairly high, indicating a high
8 quality model that will be reasonably predictive of the customer's monthly energy use.
9 An R-squared of 0.0 indicates that the regression model has no predictive ability, and an
10 R-squared of 1.0 indicates that the regression model explains all of the variability in the
11 data. Second, the example customer's regression model yields a mean average percent
12 error. This error is the percent by which the actual load data differs from the energy
13 usage predicted by the regression equation. On average, zero percent average error is
14 preferred since we expect just as many predictions to be too high as to be too low. In this
15 case, 0.4% is reasonably close to zero, indicating a high quality, relatively non-biased
16 model. Third, the mean absolute percent error refers to the absolute amount by which the
17 regression model either under-predicts or over-predicts. In this case, the average absolute
18 error is about 8%, so we can expect our predictions to be too high or too low, on average,
19 by about 8%.

20 **Q. WHAT ARE NORMAL WEATHER CONDITIONS?**

21 A. Normal weather, conceptually, is the average expected weather across many years.
22 There are two methods that we could use to predict weather normal usage. One method
23 would consist of simply inserting the average expected HDDs and CDDs into our

1 regression equation in Attachment TLO-2. This would provide a single average estimate
2 of the expected weather normal usage for each of the 12 months. However, we would not
3 know what the range of expected usages would be for mild or severe weather months. It
4 is for this reason that we take an alternative approach to simulate the expected usage over
5 many years of historical weather patterns. The process is the same. Using the HDDs and
6 CDDs for each month for each of the years' weather from 1968 to 2003, we compute the
7 expected usage associated with the weather conditions in each of these 35 years. Then,
8 we take the average expected usage across all years (see Attachment TLO-3 for the
9 annual use results for the example customer). This average value is also an average,
10 weather normal expected use value. We prefer this method, since we not only obtain the
11 average expected value, but we are also able to observe the range of possible outcomes.
12 This range of possible outcomes is 7,323 kWh (Year 1990 vs. Year 1978), or just over a
13 20% change (vs. the weather normal average) between the mildest annual weather
14 conditions and the most severe.

15 **Q. HOW ARE HDDs AND CDDs CALCULATED?**

16 A. For monthly usage analyses, our weather conditions are calculated as cooling degree days
17 ("CDD") and heating degree days ("HDD") to reflect the average amount of heating or
18 cooling activity expected for a given month. Using CDDs as an example, on a given
19 summer day, the phrase "five cooling degree days" refers to the average number of
20 degrees Fahrenheit (5 degrees, in this example) that the temperature is, on average, above
21 65 degrees for that day. The weather normalization process used for the Fixed Bill
22 Program simulates what the expected customer usage would be across many varying
23 weather conditions (varying CDDs, HDDs), and then averages these expected usages.

1 This overall average load is defined to be weather normal. To calculate the comparable
2 HDDs for each month, the same process is used, except that the degrees Fahrenheit *below*
3 65 are used.

4 **Q. ARE CUSTOMERS EXPECTED TO USE MORE ENERGY UNDER THE FIXED**
5 **BILL PROGRAM?**

6 A. Just as with any program where a customer is paying a fixed amount, such as budget
7 billing, on average, customers are expected to use more energy in the first year under the
8 program. The results of our Cinergy/PSI Employee Pilot Program show that some
9 households will use more energy when they pay a fixed amount, and some will use less.
10 Nine months of actual usage readings were compared to the expected usage levels. Over
11 the 9 month period, the overall cumulative average deviation across participants was a
12 6% increase – indicating that, on average, the Fixed Bill Program participants increased
13 usage in the first nine months without the effects of weather. Any increased usage is then
14 factored into the individual customer’s fixed bill amount for the subsequent 12 month
15 period. So, while the price effect of increasing usage is somewhat delayed due to the
16 design of the program, the financial impact of the increased usage will be seen by the
17 customer in subsequent billings.

18 Finally, it is important to note that some of this increased usage would have
19 occurred in the absence of the program. Part of this increased usage is comprised of
20 expected annual usage increases which normally occur regardless of whether a customer
21 is on a fixed bill option, or not. We assume that this average increase in gas and electric
22 usage per household is the same average increase reflected in the ULH&P Long Term
23 Electric Load Forecast and Long Term Gas Load Forecast. Although customer

1 efficiencies (*e.g.*, HVAC, insulation, home construction) tend to improve over time, the
2 number of appliances per home tends to increase usage at a faster rate (*e.g.*, PCs, TVs,
3 and kitchen appliances). The ULH&P Long Term Electric Load Forecast of electric use
4 per home is currently increasing at 0.5% per year. The ULH&P Long Term Gas Load
5 Forecast of gas use per home is expected to remain flat (0% growth). The lack of growth
6 in gas use per home reflects the fact that there are fewer gas appliances that are added
7 each year vs. electric appliances. In either case, though, these growth forecasts are less
8 than the 6% average increase that has been observed within the Cinergy/PSI Employee
9 Pilot Program, suggesting that customers in the Cinergy/PSI Employee Pilot Program
10 increased their usage, beyond what would have happened naturally, by just over 5% for
11 the first year.

12 **Q. WHAT ARE THE PRIMARY REASONS FOR THE AVERAGE USAGE**
13 **INCREASE?**

14 A. The average increase in expected usage is believed to be attributable to customers
15 changing the thermostat in the winter and in the summer to more comfortable settings,
16 adding appliances or end uses, and fuel switching. So, for the first year of a customer's
17 participation in the Fixed Bill Program, the expected usage will be increased by 6% on
18 average to account for the average expected change. We also anticipate that
19 proportionally, the majority of this usage will occur in the off-peak and shoulder periods.
20 The program is not expected to impact the peak load of the appliances. Rather, the
21 program is expected to impact the amount of time the appliances run. So, the peak loads
22 for ULH&P are not expected to be impacted as much as the total amount of energy used.
23 In subsequent years, we assume that any additional increases in expected usage will be

1 based on the observed usage for the prior year. For example, in Attachment TLO-3, the
2 customer used an average of 1.5% more kWh than projected for the year, so the expected
3 usage for the forecasted 12 months, and the resulting usage basis for the subsequent
4 year's fixed bill, will add 1.5% to the expected usage on which the Fixed Bill is based.
5 This individualized approach to estimating each customer's usage will insure that no
6 single customer will be able to increase their usage without consequence.

7 In conclusion, we believe that customer usage, on average, is likely to increase
8 slightly during the first year of participation, but further believe that the processes put in
9 place for usage monitoring, program abuse tracking and fixed bill re-pricing will restrain
10 customer usage increases beyond the initial first year increase.

11 **Q. WERE ATTACHMENTS TLO-1 THROUGH TLO-3 PREPARED BY YOU, OR**
12 **UNDER YOUR DIRECTION?**

13 A. Yes.

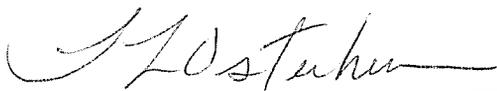
14 **Q. DOES THAT CONCLUDE YOUR PREPARED DIRECT TESTIMONY?**

15 A. Yes, it does.

VERIFICATION

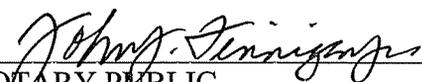
State of Ohio)
) SS:
County of Hamilton)

The undersigned, Thomas L. Osterhus, being duly sworn, deposes and says that he is the Manager, Market Research, Cinergy Services, Inc., that he has personal knowledge of the matters set forth in the foregoing testimony, and that the answers contained therein are true and correct to the best of his information, knowledge and belief.



Thomas L. Osterhus, Affiant

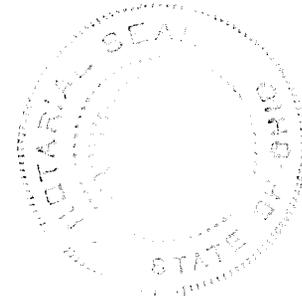
Subscribed and sworn to before me by THOMAS L. OSTERHUS on this 8TH day of NOVEMBER, 2004.



NOTARY PUBLIC

My Commission Expires:

JOHN J. FINNIGAN, JR. Attorney at Law
NOTARY PUBLIC, STATE OF OHIO
My commission has no expiration
date. Section 147.03 O.R.C.



THOMAS L. OSTERHUS

Usage and Weather Data for PSI Employee Pilot Participant # 3

<u>Read Date</u>	<u>Read Month</u>	<u>Usage Month</u>	<u>Usage</u>	<u>Usage Month CDD</u>	<u>Usage Month HDD</u>
10/5/2000	October	September	1965	102	148
11/3/2000	November	October	1348	29	274
12/5/2000	December	November	2418	0	874
1/5/2001	January	December	6038	0	1424
2/2/2001	February	January	4045	0	989
3/6/2001	March	February	3839	0	972
4/4/2001	April	March	2737	0	736
5/4/2001	May	April	1609	103	213
6/4/2001	June	May	1789	91	148
7/3/2001	July	June	2286	214	28
8/3/2001	August	July	2720	331	11
9/5/2001	September	August	3099	321	12
10/4/2001	October	September	1782	97	138
11/5/2001	November	October	2019	17	374
12/6/2001	December	November	2350	2	512
1/8/2002	January	December	4439	0	1059
2/7/2002	February	January	3378	0	868
3/8/2002	March	February	3328	0	827
4/8/2002	April	March	3120	2	732
5/7/2002	May	April	1833	63	249
6/5/2002	June	May	1904	106	178
7/8/2002	July	June	2799	344	23
8/6/2002	August	July	2833	389	1
9/5/2002	September	August	2647	326	2
10/7/2002	October	September	2338	213	63
11/6/2002	November	October	2247	3	525
12/6/2002	December	November	3516	0	806
1/10/2003	January	December	4821	0	1100
2/7/2003	February	January	4586	0	1219
3/10/2003	March	February	4589	0	1202
4/8/2003	April	March	2069	21	465
5/8/2003	May	April	1945	44	313

Regression Model
(PSI Employee Pilot Program Participant # 3)

<u>Variable</u>	<u>Parameter Estimate</u>	<u>Standard Error</u>	<u>T - Value</u>	<u>Pr > T</u>
Intercept	424.034	159.738	2.65	0.0128
HDD	3.572	0.194	18.40	0.0001
CDD	7.088	0.676	10.49	0.0001

R-square 0.926
Mean Average Percent Error 0.4%
Mean Absolute Percent Error 8.0%

Regression Equation

$$\text{Usage (kWh)} = 424.034 + 3.572 * \text{HDD} + 7.088 * \text{CDD}$$

Simulated Annual Usage

Weather Year	Simulated Annual Use	
1968	36260	
1969	36897	
1970	37099	
1971	35468	
1972	36290	
1973	33972	
1974	33341	
1975	35132	
1976	36211	
1977	38363	
1978	39596	
1979	37510	
1980	39069	
1981	35747	
1982	35643	
1983	38604	
1984	35139	
1985	35868	
1986	35366	
1987	35139	
1988	38916	
1989	36215	
1990	32272	
1991	35780	
1992	32451	
1993	35649	
1994	34813	
1995	36829	
1996	36365	
1997	34924	
1998	32476	
1999	34460	
2000	34408	
2001	33520	
2002	36468	
2003	34257	
Average Annual Use Weather Normal	35737	
Predicted Use Given Actual Weather During Participation	33686	5.7% Below Weather Normal
Actual Use	34188	1.5% Above Predicted Use, Given Actual Weather

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

DEC 13 2004

PUBLIC SERVICE
COMMISSION

In the Matter of the Application of The Union)
Light, Heat and Power Company for Authority)
to Implement a Fixed Bill Program)

Case No. 2004-00503

DIRECT TESTIMONY OF

JEFFREY L. PIPHER

ON BEHALF OF

THE UNION LIGHT, HEAT AND POWER COMPANY

December 10, 2004

**TESTIMONY OF JEFFREY L. PIPHER
SENIOR ANALYST, RATES
CINERGY SERVICES, INC.
ON BEHALF OF
THE UNION LIGHT, HEAT AND POWER COMPANY
BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION**

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Jeffrey L. Pipher, and my business address is 1000 East Main Street,
3 Plainfield, Indiana 46168.

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am employed by Cinergy Services, Inc., as a Senior Analyst in the Pricing area
6 of the Rate Department. In this capacity, I provide various administrative services
7 for The Union Light, Heat and Power Company (“Petitioner”, “ULH&P” or the
8 “Company”), and other affiliated Cinergy Corp. companies.

9 **Q. WHAT IS YOUR PRIMARY RESPONSIBILITY AS SENIOR ANALYST
10 OF PRICING FOR PETITIONER?**

11 A. As a Senior Analyst of Pricing, my primary responsibility is the evaluation and
12 development of price structures of Company offerings to customers.

13 **Q. PLEASE BRIEFLY DESCRIBE YOUR PROFESSIONAL AND
14 EDUCATIONAL BACKGROUND.**

15 A. I have been with Cinergy since December 11, 1989. I have worked in Load
16 Research, Rates, and Sales in several analytical and supervisory positions. Before
17 coming to Cinergy, I worked for the State of Indiana as a Statistician. My
18 educational background includes a Masters of Business Administration from

1 Indiana University with majors in both Finance and Management Information
2 Systems. My Bachelor's degree is also from Indiana University with a Major in
3 Mathematics.

4 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

5 A. My testimony explains ULH&P's proposal of how to include the various rate
6 adjustment riders in the fixed bill amount and the accounting treatment being
7 sought.

8 **Q. WILL A CUSTOMER'S FIXED BILL PRICE INCLUDE AMOUNTS**
9 **ATTRIBUTABLE TO ULH&P'S MONTHLY GAS COST ADJUSTMENT**
10 **("GCA"), FUEL COST ADJUSTMENT ("FAC"), AND OTHER RATE**
11 **ADJUSTMENT RIDERS?**

12 A. By necessity, a customer's fixed bill amount will reflect the fuel cost, various
13 demand side management costs, and other rider expenses estimated to occur
14 during the 12-month enrollment period. ULH&P requests permission to have
15 the flexibility to calculate each of its rider charges for Fixed Bill customers on an
16 annual forecasted basis, using the best current and forecasted information
17 available at the time of calculation. By including these riders, we will achieve the
18 stated purpose of providing a fixed bill.

19 **Q. SHOULD THERE BE CONCERN THAT THE FIXED BILL PRICE**
20 **GIVEN TO CUSTOMERS WILL REFLECT ESTIMATED GCA COSTS,**
21 **FAC COSTS, AND OTHER RIDERS?**

1 A. No. The entire Fixed Bill program is based on expected values. The fixed bill
2 amount would be more inaccurate if trends in gas costs, fuel costs, and ULH&P's
3 other rate riders were not considered. The fixed bill amount will be provided to
4 customers simultaneously with the customer's quote for their standard tariff's
5 highest and lowest monthly bill for the past 12 months. The customer will be
6 advised that the Fixed Bill quote contains a program fee for the costs and risks of
7 the program and is based on estimated costs. It is then up to the customer to
8 choose between the competing billing options.

9 **Q. PLEASE EXPLAIN ULH&P'S PROPOSED ACCOUNTING RELATED**
10 **TO THE FIXED BILL PROGRAM.**

11 A. ULH&P will calculate what a Fixed Bill customer would have paid under
12 standard residential tariff each month for both the base rate component, and for all
13 applicable riders on the actual base usage. The difference between what a Fixed
14 Bill customer would have paid, and what they actually paid (*i.e.*, their fixed bill
15 amount), will be accounted for below the line for regulatory purposes. This
16 amount could be a loss or a profit in any given month, for any given customer.
17 Any incremental expenses associated with the Fixed Bill Program (marketing
18 costs, software systems, etc.) will also be accounted for below the line for
19 regulatory purposes. Therefore, other non-participating customers are isolated
20 from the risks of the Fixed Bill Program by accounting for its incremental
21 expenses, losses or profits, below the line for regulatory purposes.

1 **Q. WHAT EFFECT WILL THE FIXED BILL PROGRAM HAVE ON THE**
2 **MONTHLY GCA, FAC AND ULH&P'S OTHER RATE ADJUSTMENT**
3 **RIDERS?**

4 A. There will be no effect. For purposes of calculating the monthly GCA, FAC and
5 ULH&P's other rate adjustment riders, Fixed Bill customers will be accounted for
6 as having paid the full amount charged as if they were on standard residential
7 tariff. All tarrified charges will be fully satisfied. Any increment or decrement
8 (*i.e.*, the "delta" between what a Fixed Bill customer would have paid under
9 standard tariff and the Fixed Bill amount) will be accounted for below the line for
10 regulatory purposes. Thus, any risk of under recovering revenues from the Fixed
11 Bill customers falls on ULH&P shareholders, and does not affect non-
12 participating customers.

13 This proposal requires no changes to ULH&P's GCA or FAC
14 proceedings. Fixed Bill customers will be treated the same as all other residential
15 customers. The only difference is that there is a charge or credit to a below the
16 line account in the amount of the revenue "delta" for these customers.

17 **Q. WHY IS REGULATORY BELOW THE LINE ACCOUNTING**
18 **APPROPRIATE?**

19 A. We believe this regulatory below the line accounting for the delta is appropriate
20 for several reasons. First, it is shareholders who are taking on this risk of fixing
21 the bill for the 12 month period at a level which will allow ULH&P to mitigate
22 most risk and cover program costs, but which is also low enough to attract
23 customers. Shareholders assume the risk of weather, usage and price fluctuations.

1 As a result, shareholders should receive the profit or the loss attributable to these
2 risks. Second, this is a voluntary billing option that we are requesting the
3 Commission to approve, and is designed to provide customers with a billing
4 option that competitive heat providers can offer. Since this is an alternative type
5 of service offering that mimics competitive service offerings, it is appropriate to
6 treat the profits or losses from the program outside of the traditional regulatory
7 framework. Third, below the line accounting protects the non-participating
8 customers from any losses or expenses of the program. Finally, below the line
9 treatment has commonly been approved for other utilities with similar fixed bill
10 options outside of Kentucky.

11 **Q. HAVE YOU PREPARED A TARIFF RIDER FOR THE OPTIONAL**
12 **FIXED BILL?**

13 A. Yes. Attachments JLP-1 and JLP-2 are the Fixed Bill riders, Rider FXB-G and
14 Rider FXB-E, respectively. They contain the Fixed Bill calculation, the eligibility
15 requirements, and the various terms and conditions for service under the Fixed
16 Bill Program. The details of the rider are fully described in the testimony of
17 ULH&P witness Mr. Michael Goldenberg.

18 **Q. WERE ATTACHMENTS JLP-1 AND JLP-2 PREPARED BY YOU OR**
19 **UNDER YOUR DIRECTION?**

20 A. Yes, they were.

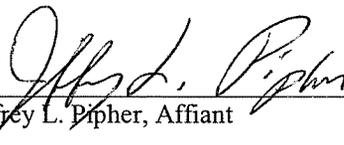
1 Q. DOES THIS CONCLUDE YOUR PREPARED DIRECT TESTIMONY?

2 A. Yes.

VERIFICATION

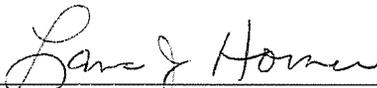
State of Indiana)
) SS:
County of Hendricks)

The undersigned, Jeffrey L. Pipher, being duly sworn, deposes and says that he is the Senior Analyst, Rates, Cinergy Services, Inc., that he has personal knowledge of the matters set forth in the foregoing testimony, and that the answers contained therein are true and correct to the best of his information, knowledge and belief.



Jeffrey L. Pipher, Affiant

Subscribed and sworn to before me by JEFFREY L. PIPHER on this 11th
day of NOVEMBER, 2004.



NOTARY PUBLIC LANA J. HORNER

My Commission Expires: 4/19/2007

RIDER FXB - G

YOUR FIXEDBILL - GAS

APPLICABILITY

Applicable to a limited number of residential customers (first come, first served) who have lived in their current residence for at least the previous 12 months, have had their gas priced on the Company's Standard Residential Tariffs or Fixed Bill Rider for at least the previous 12 months, have 12 months of actual meter reads (i.e., not estimated meter reads), have gas consumption which can be modeled with reasonable predictability, and are current on their ULH&P gas service bill. The customer may not have been disconnected for non-payment of gas service within the last 12 months.

CHARACTER OF SERVICE

Gas supplied hereunder must meet the character of service and usage specifications consistent with service under ULH&P's Standard Residential Tariff (i.e., Rate RS).

RATE

Subject to its Terms and Conditions, Rider FXB offers customers a guaranteed gas bill for 12 months and protects participating customers from unpredictable bills caused by weather related usage and changes in gas rates or the Gas Cost Adjustment (GCA).

The customer's Fixed Bill amount will be calculated starting with 12 or more months of past Actual Usage data and applying weather normalization and expected usage adjustments, using the following formula:

$$[(\text{Expected Monthly CCF} \times \text{Residential Commodity Charges and Riders})] \times (1 + \text{Program Fee \%}) + \text{Customer Charge}$$

The Company will calculate the above for each month, and sum the 12 months to come to an annual bill. The annual bill will then be divided by 12, for the monthly bill amount. Applicable taxes, and amounts owed for other services will be added to the monthly amount.

DEFINITIONS

Actual Usage: The customer's actual usage for the month.

Administration Fee: A \$50.00 fee charged to compensate the Company for costs associated with the customers leaving the program prior to the end of the Fixed Bill 12 month participation period.

Customer Charge: The customer charge in the Company's standard residential tariff.

Expected Monthly CCF: The customer's projected monthly usage (CCF) adjusted for weather and any expected changes in usage.

Program Fee: A charge, not to exceed 10%, used to mitigate the Company's risk for weather, usage and price fluctuations associated with the Fixed Bill offering.

Issued by authority of an Order of the Kentucky Public Service Commission dated _____ in Case No. _____

Issued:

Effective:

Issued by Gregory C. Ficke, President

DEFINITIONS (Contd.)

Riders: All Riders forecasted to be applicable during the participation period, at CCF levels projected for the Fixed Bill 12 month offering period.

Residential Commodity Charges: The per CCF rates for the Company's Standard Residential Tariffs.

Applicable Taxes: Taxes applicable to the Company's Standard Residential Tariffs.

TERMS AND CONDITIONS

1. The customer shall enter into a Service Agreement with the Company that shall specify the monthly Fixed Bill amount that the customer will be required to pay.
2. The term of the Service Agreement will be for twelve (12) months. Before the 12-month Fixed Bill period is over, a new Fixed Bill amount for the following year will be calculated and the customer will be notified of the new contractual amount. Service Agreements will automatically renew at the new Fixed Bill amount for the following year, unless the customer notifies the Company otherwise.
3. Removal from the program:
 - A. Move From Current Residence. If the customer has moved from his or her current residence so that there is a tenant change, before the 12-month Service Agreement period expires, the Company will calculate what the customer would have paid under Standard Residential Tariff, including applicable riders during the Fixed Bill Service Agreement period. If the customer has paid less than Standard Residential Tariff, the customer will be charged the difference. If the customer has paid more than Standard Residential Tariff, the customer will not be credited with the difference. There will be no Administration Fee applied to these customers.
 - B. Delinquent Fixed Bill Payments. If a customer becomes delinquent in the Fixed Bill payments, the Company will follow standard procedures for Standard Residential Tariff customers. If the customer enters into a payment arrangement plan or is disconnected for nonpayment, the customer will be removed from the Fixed Bill Program, and Applicable Removal Charges will apply.
 - C. Increased Actual Usage over Expected Usage. If the customer has actual usage for any month that is 20% greater than expected usage, then the Company has the right to re-price the Fixed Bill amount for the customer based on the updated usage information. If the customer does not accept the new Fixed Bill amount then the customer will be removed from the Fixed Bill Program, and Applicable Removal Charges will apply.
 - D. Customer Voluntary Removal. If the customer chooses to leave the Fixed Bill Program prior to the end of the 12-month Service Agreement period, the customer will be removed from the Fixed Bill Program, and Applicable Removal Charges will apply. After the end of the Service Agreement period, eligible customers may choose to enter into another 12-month Fixed Bill Service Agreement, or return to Standard Residential Tariff. In either event, no Applicable Removal Charges will apply.
 - E. Estimated Meter Reads. If the customer has two or more estimated meter reads during the Fixed Bill Service Agreement period where the meter reader was unable to gain access to the meter, then the customer may be removed from the Fixed Bill Program, and Applicable Removal Charges will apply. **The indentation on this paragraph needs to be aligned with the other paragraphs**

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TERMS AND CONDITIONS (Contd.)

- F. Other Reason. If the customer leaves or is removed from the Fixed Bill Program before the end of the Service Agreement period for any other reason, Applicable Removal Charges will apply.
4. Applicable Removal Charges. In Items 3 (B) through (F) above, the Company will calculate what the customer would have paid under Standard Residential Tariff, including applicable riders during the Fixed Bill Service Agreement period. If the customer has paid less than Standard Residential Tariff, they will be charged the difference. If they paid more than Standard Residential Tariff, the difference will not be credited. In either case, the customer may be charged an Administration Fee of \$50 and will be returned to the previous Standard Residential Tariff.

The supplying of, and billing for, service and all conditions applying thereto, are subject to the jurisdiction of the Kentucky Public Service Commission and the Company's General Terms and Conditions, as filed with the Kentucky Public Service Commission.

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RIDER FXB-E

YOUR FIXEDBILL - ELECTRIC

APPLICABILITY

Applicable to a limited number of residential customers (first come, first served) who have lived in their current residence for at least the previous 12 months, have had their electricity priced on the Company's Standard Residential Tariffs or Fixed Bill Rider for at least the previous 12 months, have 12 months of actual meter reads (i.e., not estimated meter reads), have a load profile which can be modeled with reasonable predictability, and are current on their ULH&P electric service bill. The customer may not have been disconnected for non-payment of electric service within the last 12 months.

CHARACTER OF SERVICE

Electric energy supplied hereunder must meet the character of service and usage specifications consistent with service under ULH&P's Standard Residential Tariff (i.e., Rate RS).

RATE

Subject to its Terms and Conditions, Rider FXB offers the customers a guaranteed electric bill for 12 months and protects participating the customers from unpredictable bills caused by weather related usage and changes in electric rates or fuel prices.

The customer's Fixed Bill amount will be calculated starting with 12 or more months of past Actual Usage data and applying weather normalization and expected usage adjustments, using the following formula:

$$[(\text{Expected Monthly kWh} \times \text{Residential Energy Charges and Riders})] \times (1 + \text{Program Fee \%}) + \text{Customer Charge}$$

Company will calculate the above for each month, and sum the 12 months to come to an annual bill. The annual bill will then be divided by 12, for the monthly bill amount. Applicable taxes, and amounts owed for other services will be added to the monthly amount.

DEFINITIONS

Actual Usage: The customer's actual usage for the month.

Administration Fee: A \$50.00 fee charged to compensate the Company for costs associated with the customers leaving the program prior to the end of the Fixed Bill 12 month participation period.

Customer Charge: The customer charge in Company's standard residential tariff.

Expected Monthly kWh: The customer's projected monthly usage (kWh) adjusted for weather and any expected changes in usage.

Program Fee: A charge, not to exceed 10%, used to mitigate the Company's risk for weather, usage and price fluctuations associated with the Fixed Bill offering.

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DEFINITIONS (Contd.)

Riders: All Riders forecasted to be applicable during the participation period, at kWh levels projected for the Fixed Bill 12 month offering period.

Residential Energy Charges: The per kWh rates for the Company's Standard Residential Tariff.

Applicable Taxes: Taxes applicable to the Company's Standard Residential Tariff.

TERMS AND CONDITIONS

1. The customer shall enter into a Service Agreement with the Company that shall specify the monthly Fixed Bill amount that the customer will be required to pay.
2. The term of the Service Agreement will be for twelve (12) months. Before the 12-month Fixed Bill period is over, a new Fixed Bill amount for the following year will be calculated and the customer will be notified of the new contractual amount. Service Agreements will automatically renew at the new Fixed Bill amount for the following year, unless the customer notifies the Company otherwise.
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 - A. Move From Current Residence. If the customer has moved from his or her current residence so that there is a tenant change, before the 12-month Service Agreement period expires, the Company will calculate what the customer would have paid under Standard Residential Tariff, including applicable riders during the Fixed Bill Service Agreement period. If the customer has paid less than Standard Residential Tariff, the customer will be charged the difference. If the customer has paid more than Standard Residential Tariff, the customer will not be credited with the difference. There will be no Administration Fee applied to these customers.
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 - E. Estimated Meter Reads. If the customer has two or more estimated meter reads during the Fixed Bill Service Agreement period where the meter reader was unable to gain access to the meter, then the customer may be removed from the Fixed Bill Program, and Applicable Removal Charges will apply.

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4. Applicable Removal Charges. In Items 3 (B) through (F) above, the Company will calculate what the customer would have paid under Standard Residential Tariff, including applicable riders during the Fixed Bill Service Agreement period. If the customer has paid less than Standard Residential Tariff, they will be charged the difference. If they paid more than Standard Residential Tariff, the difference will not be credited. In either case, the customer may be charged an Administration Fee of \$50 and will be returned to the previous Standard Residential Tariff.

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